WORLD BANK NEWS

Volume XII, No. 20 May 20, 1993

Mediterranean Countries Tackle Pollution

Five thousand years of human history have not been kind to the Mediterranean Sea.

Every day, the cradle of water that gave birth to ancient cultures in Europe, North Africa and the Middle East, absorbs lakes of raw sewage, mountains of untreated urban waste, tons of pesticides and vast quantities of bilge from passing ships.

Caio Koch-Weser

Once a pristine supporter of human life, the polluted Mediterranean is now one of the world's dirtiest seas and a growing threat to the very economic development that spoiled its water. Twenty of the 29 rivers that pour into the sea now carry water unfit for drinking, fish stocks are low in some areas, and a survey of 150 beaches in several countries showed that a quarter carried bacteria well above safe levels for public health.

But there are signs of hope. Rising environmental awareness among Mediterranean basin governments and populations has prompted action aimed at arresting and reversing the degradation.

On May 24 in Casablanca, Morocco, environmental representatives from the 20 countries sharing the Mediterranean coastline are expected to launch a three-year, $30 million technical assistance program aimed at helping solve the region's most critical environmental problems. The conference would effectively double the previous $14 million first phase of the effort.

The first cycle of the Mediterranean Environmental Technical Assistance Program (METAP) was launched in 1990 and the second three-year cycle (METAP-II) picks up where the original program left off. The program is co-sponsored by the World Bank, the Commission of the European Communities, the European Investment Bank, and the United Nations Development Programme.

"The conference and the level of governmental representation reflect a growing understanding among Mediterranean countries – including those of the Middle East and North Africa—of the need to place environmental issues among their development priorities," says Caio Koch-Weser, World Bank Vice President for

See METAP-II, *page 5*

First Credit To Kyrgyzstan Helps Reforms

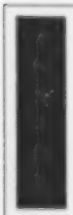
To help keep Kyrgyzstan's economy going while the country moves ahead with economic reforms, the International Development Association on May 13 approved a credit of SDR 43.3 million ($60 million), which will pay for badly needed imports and technical assistance.

The credit marks the first IDA assistance to Kyrgyzstan since the country joined the Bank in September, 1992. Cofinancing of $70 million is expected from the governments of Japan, the Netherlands and Switzerland.

The bulk of the credit will pay for imports needed by the country's telecommunications, transportation, energy, health and agriculture sectors. It will also pay for imported environmental-protection technologies. The imports will arrive at a crucial time for Kyrgyzstan's economy, says Kutlu Somel, formerly senior agricultural economist in the World Bank's Europe, Middle East and North Africa Technical Department.

"The countries of the FSU are going to be in a fairly serious situation for the near future," says Somel. "Kyrgyzstan will be more so because it's a small country, it's been neglected, and some of the indus-

See KYRGYZSTAN, *page 2*



Four decades of economic isolation left Albania with almost no one with the skills needed to run a market economy. A recently approved credit from IDA will help the country develop a cadre of professionals prepared to carry out economic reforms.

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LENDING

Former Soviet Republic Has 'Great' Potential

KYRGYZSTAN, *from page 1*

tries had been developed to deliver goods to the FSU, a market which has diminished substantially."

Foundation for Growth

At first glance, the Central Asian nation of Kyrgyzstan looks better off than many developing countries. A well educated population, a strong industrial base and a good infrastructure offer great economic potential for this mainly rural country of 4.4 million people.

But despite its assets, Kyrgyzstan faces a worsening economic picture. The breakup of the former Soviet Union (FSU) deprived the country of markets for its exports, major cash transfers, and heavily subsidized imports for its suffering economy, leaving production at a standstill in many industries.

Aiming to reverse the economic downturn, Kyrgyzstan in 1990 launched reforms to transform its centrally managed economy into a market-based system. But the cost of imports kept rising and exports continued falling. In 1992, Kyrgyzstan's economic output fell by a quarter and is expected to drop by 16 percent this year. An estimated one-third of the country's population now lives below the poverty line.

Keeping Output Up

The imports earmarked by the IDA credit are crucial to keeping economic output up in public enterprises, unemployment down and the government budget deficits within reasonable limits, says Somel. Inputs, raw materials, and spare parts will all be covered under the plan. Purchases range from agricultural chemicals to power transmission lines and irrigation pumps.

The government will set aside part of the credit to make loans to private enterprises which want to buy imports. By funneling funds to the private sector, the government will keep entrepreneurial activity alive while also helping the public sector.

The funds will also help support Kyrgyzstan's burgeoning foreign exchange operations only weeks after the country introduced its own currency, the *som*, earlier in May. While the credit will beef up foreign exchange markets, it will also allow Kyrgyzstan to withdraw some of its own money from the markets, thereby reducing the chances of inflation.

Kutlu Somel

The credit will also help pay for expert advisory services to assist the government in reforming enterprises, privatizing some industries, supporting the private sector and developing a private financial system. And it will help build up a social safety net and develop laws and policies leading to a market-oriented agriculture and mining sectors and procurement systems.

Early Reforms

The Kyrgyzstan government introduced reforms ahead of many other FSU countries. The reform program focused on rapidly reducing the state's role in the economy, introducing a new tax system, strengthening the autonomy of the central bank, speeding up the freeing of prices, and reforming family allowances.

In 1992, it launched more reforms, including privatization. By January, 1993, 12 percent of state assets, mostly small-scale trade and service enterprises, were sold to private hands. The government eliminated most barriers to private sector activity in trade and distribution by

continued at top of next page

Population: 4.4 Million

Births Per Woman: 3.6

Population Growth Rate: 1.9 Percent

Under-5 Mortality Rate (per 1,000 live births): 36

Life Expectancy: 69 Years

READE
FICH

Standard of Living Dropped

continued from previous page

the end of 1992. But some exports, like wool and tobacco, were exempted to buy oil and gas from the FSU for this year.

But despite the reforms, Kyrgyzstan has witnessed severe drops in its output and standard of living. In 1993, output is expected to be 40 percent lower than in 1990. Real wages fell by 37 percent between early 1991 and late 1992, and pensions and minimum wages have dropped to only a few dollars a month. By the end of 1992, inflation had reached 2,000 percent for the year.

Although Kyrgyzstan faces a tough economic challenge ahead, Somel says the country boasts strong economic potential. The IDA credit, he says, will help the country keep economic production going, fully use the 1 million hectares of irrigated land, and diversify its crop mix away from a heavy emphasis on livestock.

If Kyrgyzstan keeps its reforms on track and doesn't suffer from powerful shocks or natural disasters, Somel says the country could turn its economy around by the second half of the decade. Somel cautions against "crystal ball-gazing," but says Kyrgyzstan could see economic growth by 1997 at the earliest. □

BRAZIL The quality of schooling for about 3 million children per year in four states will improve with support from a World Bank loan of $212 million. The project aims to increase student learning, reduce repetition and dropout rates, and increase graduation rates in the northeastern states of Ceara, Maranhao, Sergipe and Pernambuco.

BURUNDI A credit of SDR 7.5 million ($10.4 million) from the International Development Association will help the government improve living conditions of the poor, especially women and jobless youth, through a social action project. The plan is designed to involve the poor in small-scale productive activities, generate jobs, improve social services and infrastructure, foster participation of local governments and non-governmental agencies in development activities.

CHINA The government will construct the Tianhuangping pumped-storage hydroelectric plant and associated facilities with support from a $300 million World Bank loan. The plant is a cost-effective and environmentally sound solution for meeting peak power demand in the East China power system.

SRI LANKA An IDA credit of SDR 14.4 million ($20 million) will help the government launch an urban transport project in the capital city of Colombo. The plan aims to cut down on vehicle operating costs, passenger travel times and traffic safety hazards, provide easier access to shops, and reduce air pollution.

UGANDA The government will launch reforms that aim to build a more efficient and diversified financial sector and stronger banking system with support from an IDA credit of SDR 72.8 million ($100 million). Also, an IDA credit of SDR 38 million ($52.6 million) will help improve primary education services through reform, reconstruction and development of the education system.

Credit Pays for Advisory Services To Help Albania With Reforms

After 40 years of almost complete isolation, Albania is trying to transform its ailing centrally managed economy into a market-based system. But changing its economic structure has not been easy for Albania because the country lacks the administrative capacity to manage a market economy and carry out reforms.

To help Albania beef up its reform skills, the International Development Association on May 13 approved a credit of SDR 2.9 million ($4 million) to finance expert advisory services for the country.

The project will complement assistance being provided by other international donors, including the European Community, Japan, Germany, Italy, and the United States.

The IDA credit will pay for technical assistance in areas such as macroeconomic management, privatization, public enterprise reform, and banking sector reform and development. The assistance will include advisory services, studies, training, seminars and workshops.

Assistance in macroeconomic management will focus on developing economic statistics for national accounts, analyzing the impact of economic policies on the budget, developing the recently established treasury system, and preparing a "pipeline" of public investments.

Assistance for enterprise reforms will aid rapid privatization of most state enterprises, restructuring of a limited number of troubled ventures, and legal reforms aimed at improving the framework for a market economy.

Albania faces the challenge of dealing with a complete economic dislocation that took place when the old centralized system collapsed. Albania's economic output fell 10 percent in 1990, 30 percent in 1991, and 10 percent in 1992. The average income for this nation of 3.3 million people is now below $250, a 50 percent drop from the already low level reported in the mid-1980s. □

Date	Event	Sponsor	Location	Telephone
MAY				
21	Meeting the Investment Needs of Latin America	Inter-American Development Bank	London	(02-25) 466744
24-25	Mediterranean Environmental Technical Assistance Program II	World Bank , European Inv. Bank, European Community, UNDP	Casablanca, Morocco	(202) 473-2318*
25-28	From Rio to the Capitols: State Strategies for Sustainable Development	Office of the Governor, Kentucky	Louisville, KY	(502) 564-2611*
26-28	Participants Meeting	Global Environment Facility	Beijing	(202) 473-5102*
27	Consultative Group for Uganda	World Bank	Paris	(33-1) 40-69-3016
27-28	Southern Africa Forum	World Economic Forum	Cape Town	(41-22) 736-0243
27-28	Seminar on Investment and Environment in Eastern Europe	Executive Enterprise	New York	Fax(212)675-4883*
JUNE				
1-2	Consultative Group for Papua New Guinea	World Bank	Hong Kong	(202) 458-0344*
3-4	Privatization and the Power Sector	World Bank, ADB, AfDB, and IDB	Washington	(202) 458-0110*
3-4	Global Power Sector Opportunities in the '90s: the Multilateral Development Bank Perspective	U.S. Department of Commerce	Washington	(703) 487-4079*
4-6	Conference on Research Economics in the Middle East and North Africa	World Bank	Cairo	(202) 477-2318*
6-9	International Monetary Conference 1993	IMC	Stockholm	(202) 663-5013*
7-10	Privatization and Socioeconomic Policy in Central and Eastern Europe	Boston College Graduate School of Social Work	Krakow, Poland	(617) 552-4041*
7-11	Ninth International Conference on AIDS	International AIDS Society, World Health Org., et al.	Berlin	(41-22) 791-2111
8-9	Consultative Group for Russia	World Bank	Paris	(33-1) 40-69-3016
14-18	Water Supply Seminar for Latin America	World Bank	Alicante, Spain	(202) 473-8721*
14-25	World Conference on Human Rights	United Nations	Vienna	(212) 963-8070*
15-18	Energy Conference of Latin America and the Caribbean	Latin American Energy Org., ACIEM, Ministry of Mines and Energy of Colombia	Bogota	(593-2) 539-675
20-23	Health and the Environment: Meeting the Challenge for Human Development	National Council for International Health	Washington	(202) 833-5900*
24-25	Consultative Group for Ghana	World Bank	Paris	(33-1) 40-69-3016

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Grants Funded 61 Mediterranean Projects

METAP-II, *from page 1*

the Middle East and North Africa. "METAP's second cycle is an acknowledgment that 'clean growth' is a goal that all conference participants are committed to and are striving to achieve, through cooperation, throughout the Mediterranean basin."

Although the two programs together total only $44 million, METAP's main role is to serve as a "catalyst in raising awareness of the critical nature of environmental problems and undertaking key actions to arrest the degradation of the Mediterranean region," says Hasan Tuluy, the World Bank's METAP coordinator.

Hasan Tuluy

"It's folly to think that METAP can solve all of the Mediterranean's problems but the program will contribute to the process," says Tuluy.

"Currently, many countries think that protecting the environment is a luxury compared to their other development goals. But that's unrealistic. You'll never improve your standard of living if pollution is eating into your capital. Also, if you think you'll just clean it up later, you may find you don't have enough money because the environmental degradation limited your economic growth and revenues."

Tackling environmental issues also helps fight poverty among the 120 million people that live by the sea, says Tuluy.

"The poor bear most of the cost of pollution. They live near industrial sites because of cheaper rent, they have no access to services, and often they are forced to drink water which can be very polluted," he says.

METAP aimed to help solve environmental problems by funding project preparation activities and policy studies, and promoting development of institutions to make them more capable of dealing with environmental issues.

Between 1990 and 1992, the program provided direct grants to 12 countries for 61 environmental projects in four areas: management of water resources, management of solid hazardous wastes, prevention and control of pollution from marine oil and chemicals, and management of coastal zone areas.

National activities ranged from a hazardous-waste-management program in Algeria and a coastal-zone-management scheme in Turkey, to a solid waste project in Tunisia and a local environmental management effort in Egypt.

Regional Programs

METAP also funded regional programs, including a network linking Mediterranean coastal cities with similar pollution problems, and activities such as training for municipal workers in environmental planning management and coastal environmental impact assessment. A regional workshop was also held on environmental financing instruments, drawing on studies carried out in Croatia, Tunisia and Turkey.

METAP-II will continue the earlier work of the first program, launch a series of projects for smaller towns, and provide grants to more member countries, including Lebanon, Syria, Slovenia, and Spain.

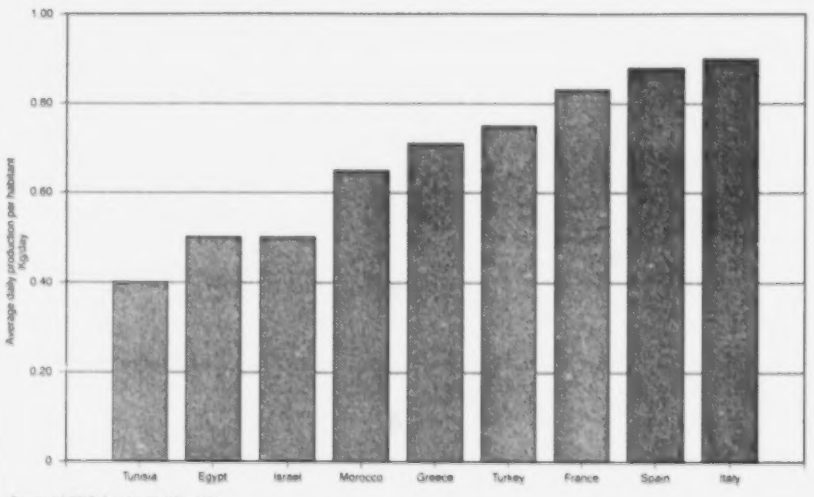
Tuluy says METAP-II also aims to shift the effort's focus from coping with coastal pollution to tacking urban environmental problems. Although coastal pollution is a big problem, almost one-half of the sea's pollutants—municipal and industrial wastewater and solid waste—come from inland cities.

Disposal of hazardous waste, which is often unregulated, also poses a problem for Mediterranean countries. Most of the waste comes from both big and small industries, which produce chemicals and textiles and process foods. In some areas, the hazardous waste has made water undrinkable.

Water shortages, in turn, have threatened to slow economic development in many Mediterranean countries. A few

See METAP-II, *page 6*

Average Production of Solid Waste per Capita In Some Mediterranean Countries, 1985-91



Source: UNEP/PAP 1991 and WRI 1992

Coastal Pollution Sickens National Economies

METAP-II, *from page 5*

northern countries face possible economic slowdowns because of the shortages.

In Algeria, Egypt, Libya, Morocco, Syria and Tunisia, water demand resulting from population growth, irrigation needs and urban expansion is rapidly outpacing the countries' ability to meet legitimate demands for water.

Much of the Mediterranean's pollution comes from the shipment of oil and refined petroleum products. Every three weeks, oil pollution from shipping in the Mediterranean equals the amount lost in the Exxon Valdez accident. In coming years, shipping traffic is expected to pick up, with the opening up of Central and Eastern Europe and the former Soviet Union.

Coastal pollution is also severe, affecting the economies, ecology and health of Mediterranean countries. Pollution flowing directly into the sea and pollution from other sources like acid rain combine to make many coastal areas unusable for tourists and fishermen.

In dealing with environmental pollution, Mediterranean countries should focus on prevention, which is cheaper and more effective than cleanup, says Tuluy.

That requires governments to better manage precious resources and to modify laws, incentives and regulations to encourage conservation. Area governments must also strengthen regulations, improve management, and redouble political commitment for environmental protection. Developing countries must especially guard against depleting assets that feed economic growth.

Mediterranean countries also need to invest more in promoting environmental awareness and in ensuring that the government, private sector and the public think about environmental impact when making decisions.

Currently, the countries of the "northern rim" of the Mediterranean pollute much more than the nations of the "southern rim." Almost 60 percent of all pollution in the Mediterranean comes from France, Italy, and Spain, mainly because those countries are more industrialized and their pollution includes more inorganic waste, like packaging and other forms of trash.

But if the southern countries do not do more to prevent environmental pollution, their rapid population growth will soon make them the region's worst polluters. The southern and eastern rim countries are growing five times as fast as the north, and will by 2025, host a population equal to today's entire Mediterranean population.

By bringing the southern and northern countries together, METAP will try to share the positive environmental lessons of the north to help the south avoid costly mistakes as its population expands. By 2025, the Mediterranean coastal population is expected to double to about 220 million and will be swollen by 350 million seaside tourists visiting every year.

The 12 countries which received grants for national activities in the first phase of METAP include Albania, Algeria, Croatia, Cyprus, Egypt, Greece, Israel, Italy, Malta, Morocco, Tunisia, and Turkey. All Mediterranean countries took part in regional training initiatives and network activities supported by METAP. □

INVESTING IN THE MEDITERRANEAN ENVIRONMENT
Cycle II of the Mediterranean Environmental Technical Assistance Program (METAP II)

WORLD BANK NEWS

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The World Bank Group is the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). IBRD is the main lending arm of the World Bank. IDA is the World Bank affiliate that lends on concessional terms to the poorest countries. IFC finances private sector projects and advises businesses and governments on investment issues. MIGA promotes foreign direct investment through guarantees, policy advice, and promotional services.

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Developing World Cities Need to Conserve Water

Every day, the rapidly growing cities of the developing world waste large amounts of precious and costly water that could be used for drinking, farming, or industrial production. Leaks in pipes, inefficient metering systems, cheap prices for water and wasteful practices often send half of a city's water supply down the drain, worsening already badly polluted waterways.

Faced with water scarcity, many governments opt to simply increase water supply by exploiting new water sources and supplying them to the cities. But developing world cities can save money and resources if they delay huge, costly projects and focus instead on improving the way they manage their water systems, says Saul Arlosoroff, project manager in the World Bank-United Nations Development Programme (UNDP) Water and Sanitation Program, in the Bank's Transport, Water and Urban Development Department.

Arlosoroff and the Bank-UNDP program recently concluded their first international conference on urban water conservation in Dalian, China. More than 120 participants from major cities in China and other parts of the world agreed to focus more attention on the growing water crisis in developing world cities and the need to conserve water. Arlosoroff spoke to World Bank News *about the Dalian conference and the issue of urban growth and its implications for water conservation. Excerpts follow:*

UNICEF/Maggie Murray-Lee

Cameroonian child drinks from public tap.

WBN: What was the Dalian conference and what did it achieve?

See **INTERVIEW,** *page 5*

GEF Reviews Structure and Sources of Funding

As it nears the end of its three-year pilot phase, the Global Environment Facility (GEF) appears ready to undergo some changes.

From May 26 to 28, representatives from 60 governments are meeting in Beijing to review the progress of the GEF and start talks on changing the decision-making process of the institution and possibly doubling the GEF's funding for its next three-year cycle.

Set up in 1990, the GEF is a three-year pilot project to provide grants to developing countries for projects aimed at protecting the global environment. It is run by the World Bank, the United Nations Development Programme and the U.N. Environment Programme.

The Beijing meeting will focus on a paper that lays out a plan that could change the GEF's decision-making to a system which groups member countries in up to 30 constituencies to facilitate deliberations among participating countries. The new voting mechanism aims to ensure a balanced and equitable representation of the interests of developing

See **GEF,** *page 2*

Some development experts say that "desertification" could ruin parts of Africa's farmlands. But one World Bank official says attention should be focused on halting a more insidious problem: land degradation. **4**

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Development agenda, page 3

MEETINGS AND EVENTS

Delegates Discuss GEF's Future

GEF, *from page 1*

countries, as well as give due weight to the funding efforts of donor countries. The number of participating countries is expected to grow rapidly as the GEF moves toward the goal of universal membership.

Replenishment talks at the meeting will center on a plan that calls for increasing the GEF's funding from $1.3 billion for the first phase to between 2 billion and 3 billion Special Drawing Rights ($2.8 billion) for the next three to five years. The talks will continue in Washington in September and Paris in November before culminating in Geneva in December.

The GEF funds projects that deal with global warming, pollution of international waters, destruction of biological diversity, and depletion of the ozone layer. □

LENDING

Chad Will Raise Primary School Enrollments

The number of children enrolled in Chad's primary schools, particularly in rural areas, will soon increase as a result of a project being financed by a credit of SDR 13.9 million ($19.3 million), approved by the International Development Association (IDA) May 25.

Through the IDA-financed project, Chad hopes to raise primary school enrollments by six percentage points in seven years. It also hopes to increase enrollments of girls from 31 percent today to 36 percent by the year 2000.

The project includes the construction of 800 classrooms and the rehabilitation of 200 dilapidated ones.

The project also includes the purchase and distribution of about 780,000 textbooks and 10,000 teachers' guides. □

New Bank Representative In Argentina

The World Bank has appointed a new representative to the institution's office in Buenos Aires, Argentina.

Patricio Millan will take up his post on June 15. He is replacing Myrna Alexander, who has returned to the Bank's headquarters in Washington.

ALBANIA The transport sector will move toward a more market-based system with the help of a credit of SDR 13 million ($18 million) from the International Development Association (IDA). The project aims to repair 65 kilometers of roads, construct 16 kilometers of new roads, improve road maintenance and provide spare parts and transport equipment.

COLOMBIA A $50 million World Bank loan will help Colombia accelerate export development. The effort will also focus on streamlining trade administration and ensure consistency with the General Agreement on Trade and Tariffs.

COTE D'IVOIRE An IDA credit of SDR 12.3 million ($17 million) will help provide the government with the institutional capacity to implement a comprehensive medium-term macroeconomic adjustment program.

GHANA The government will increase the quality and efficiency of urban transport services, make their delivery more equitable and sustain improved levels of service with support from an IDA credit of SDR 55 million ($76.2 million). Another IDA credit, for SDR 29.6 million ($41 million), will help foster the growth of private Ghanaian exporters.

MADAGASCAR An IDA credit of SDR 4.6 million ($6.3 million) will help facilitate investment and growth in the productive sectors by improving the functioning of the financial system. The project aims to establish an efficient financial system with an effective banking system at its core.

THE PHILIPPINES A World Bank loan of $51.3 million will support the government's attempt to sustain improvements in national irrigation systems. The project aims to increase agricultural production, expand small farmer incomes and rural employment opportunities, and contribute to rural poverty alleviation.

SOLOMON ISLANDS The government will use an IDA credit of SDR 12.2 million ($16.9 million) to finance a project designed to increase secondary-school enrollments by 40 percent. The project will include extra actions aimed at increasing enrollments of girls.

Development Agenda

Date	Event	Sponsor	Location	Telephone
JUNE				
1-2	Consultative Group for Papua New Guinea	World Bank	Hong Kong	(202) 458-0344*
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15-18	Energy Conference of Latin America and the Caribbean	Latin American Energy Org., ACIEM, Ministry of Mines and Energy of Colombia	Bogota	(593-2) 539-675
20-23	Health and the Environment: Meeting the Challenge for Human Development	National Council for International Health	Washington	(202) 833-5900*
24-25	Consultative Group for Ghana	World Bank	Paris	(33-1) 40-69-3016
24-25	Seventh London Conference on Privatization and Commercialization	Adam Smith Institute	Westminster, U.K.	(44-71) 222-4995
28-30	1993 Pan-Asian Forum: Telecommunications Reform, Privatization and Planning	Institute for International Research	Hong Kong	(02) 929-5366
JULY				
7	Publication of *World Development Report 1993: Investing in Health*	World Bank	Washington	(202) 473-1784*
7-9	Economic Summit	Group of Seven	Tokyo	(81-3) 3592-0156
AUGUST				
10-13	Population Commission	UNESCO	New York	(33-1) 45-68-1000

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RESEARCH

Government Policies Rob Africans Of Precious Drylands

Every year, rapid population growth forces many African families to settle on outlying dryland areas to eke out a living growing crops or raising livestock. But some observers say that farming those drylands degrades the areas, leaving them drier and unusable for future generations of African farmers.

The controversial trend of "land degradation" worries many development experts who fear it robs African communities of precious farmland while population growth rates soar across the continent.

But many differ on what causes land degradation. Some say a natural reduction in vegetative cover and a spreading of sand, or a process known as "desertification," is responsible. But a new World Bank study says that climatic changes may have some effect on dryland areas, but the problem of losing marginal land is mostly man-made and is therefore preventable.

Burdensome government policies, taxes and regulations together make it tough for African farmers to earn a profit from their farms and use the land in a "sustainable" manner, says the study by John English, formerly principal economist in the World Bank's Environment Department. English's paper, *Economic and Social Policies and Land Degradation in Dryland Areas*, was delivered on May 25 at an international conference on desertification in Nairobi, Kenya.

"Desertification is not the main issue. Land degradation is," says English. "The problem in marginal dryland areas is that farmers have very few crops that they can grow, taxes and levies are often slapped on exported crops, and the markets for selling the products are scarce. Basically, the prospect of growing crops on these areas is not very profitable to the average farmer. So, it's not surprising to see that farmers do not invest in maintaining a resource—land—that appears to have no long-term value."

Of all African farmland, the drylands are the most vulnerable to loss, says English. Rainfall is low and unreliable, and sparse vegetation provides a poor cover to guard against soil erosion. Because the areas are economically unproductive, they are not linked to national commercial centers by roads, and the inhabitants often do not have a say in governmental decisions that affect their lives.

To stop land degradation, African governments must eliminate oppressive economic and social policies that cause farmers to abandon degraded drylands, says English. Instead, governments should create incentives to allow rural households to use the drylands sustainably and keep agricultural production up.

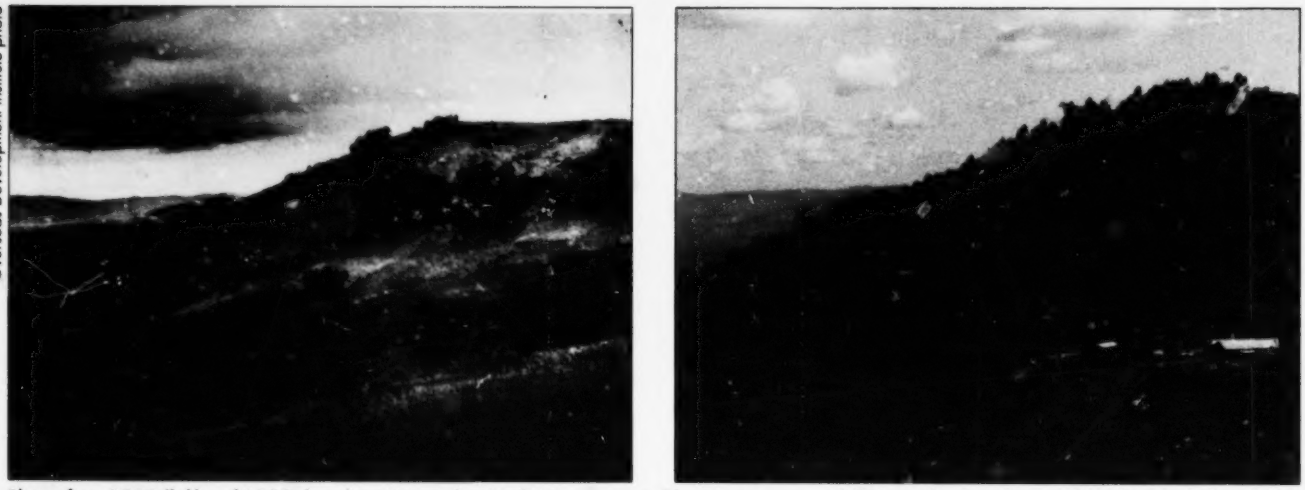
Governments should cut taxes on agricultural products to make farming more profitable and make life more stable by granting enforceable property rights to farmers. Governments should also continue to encourage farming innovations, introduce alternative crops that can be best grown on the drylands, and not discourage seasonal migration.

Overall, leaving farmers to grow their crops or raise their livestock may be the best way to ensure that the lands stay viable and usable, says English.

"Farmers will take the right steps to prevent land degradation from happening if they have the incentive of using that land to earn income and if they see a future for themselves and their families. A farmer will not deliberately go out on a limb and cut it off behind him." □

Economic and Social Policies and Land Degradation in Dryland Areas *is offered free of charge. To get a copy, write to the World Bank, Room S-5131, 1818 H St., Washington, D.C., 20433, U.S.A.*

Overseas Development Institute photo



Photos from 1930 (left) and 1990 show how Kenyan land policies encouraged farmers to terrace a hillside and restore degraded land in Machakos district.

FINANCE

World Bank Increases Loan-Loss Provisions and General Reserves

The World Bank increased its accumulated provision for loan losses from 2.5 percent to 3 percent of its loan portfolio on May 20, 1993. This increase will result in an additional $500 million charge to income for fiscal 1993, which will end on June 30.

The main reason for the increase is a deterioration in the outlook for the collectibility of loans to or guaranteed by the Federal Republic of Yugoslavia and the Republic of Bosnia-Herzegovina, which are in nonaccrual. The Bank has never incurred an actual loss on loans or guarantees to any of its borrowing members.

The Bank also announced plans to maintain its income-earning capacity by increasing its target for the ratio of reserves-to-loans to a range of 13 percent to 14 percent for fiscal 1994 to 1995, subject to a customary annual review. The ratio of reserves-to-loans expected for the end of fiscal 1993 is about 11.6 percent. When combined with accumulated surplus funds awaiting future disposition, including to reserves, the ratio of reserves-plus-surplus to loans is expected to be about 12.7 percent at the end of fiscal 1993. The planned increase in reserves would result in additional income-generating capacity to offset the gradual decline in net income from old loans at relatively high fixed rates as these loans are repaid.

The Bank has taken this action because it has an opportunity to build reserves while continuing its practice of waiving some loan charges and transferring some of its net income to the International Development Association (IDA) or to other uses approved by the shareholders. By protecting its income-earning capacity, the Bank will be better able to sustain such loan charge waivers and IDA transfers into the future. □

INTERVIEW

Demand for Water Will Increase As Urban Areas Grow

INTERVIEW, *from page 1*

Mr. Arlosoroff: It was the first conference on urban water conservation that the World Bank has organized. It emphasized that urban water conservation is becoming an essential policy and strategy issue that, unless integrated into government programs, threatens to hamper economic growth in many regions. The meeting in Dalian is part of the Bank's global effort to promote the issue and the first in a series of planned conferences to transfer knowledge and exchange experiences with officials from developing world cities.

Saul Arlosoroff

WBN: Why do the world's cities need to improve the way they manage water resources?

Mr. Arlosoroff: The growth of population and cities in the developing world is reaching a stage where additional water resources are becoming very expensive to develop and to bring into the city. Competition for use of water is also growing, especially between irrigation, industry and household needs. Also, a rising standard of living prompts people to use more and more water per capita while clean sources of water are becoming more scarce.

Today, there are two options for cities that want to have enough water to drink. One option is to bring more and more water into the city. They have to go to a new source of water, possibly build a dam, divert it, treat it and pump it. Often, that involves serious environmental, economic, and administrative challenges.

The second option, which is much cheaper, is to start managing the demand and reduce water consumption in industry, commercial enterprises and households, as well as reducing supply losses. If you introduce policies and the regulatory framework to better manage water use, you can reduce water consumption by up to 20 percent to 40 percent.

Local governments and cities will also delay the investments of hundreds of millions of dollars which instead could be spent on replenishing water supplies. For example, if you delay a $300 million project for a year only, you can save roughly 10 percent of the cost just by saving the interest, depreciation, and maintenance costs. If you give that $30 million to a serious water demand management project in a major city, officials can invest it in water conservation, thereby saving millions of dollars.

WBN: What needs to be done to tackle the problem?

Mr. Arlosoroff: Developing countries need to reconsider undertaking new water supply projects and start managing demand. That means pricing water

See INTERVIEW, *page 6*

Stanley Associates

Device helps Chinese worker find water leaks.

Governments Should Encourage Water Conservation

INTERVIEW, *from page 5*

properly, stopping leaks, cutting illegal connections, metering water correctly, eliminating waste of water and adopting new technologies.

First, water must be priced according to its cost and value. If water is undervalued, industry, people and local governments do not pay attention to how much water they use.

Second, cities must reduce the losses of so-called "unaccounted for" water, which includes leaks from pipes, illegal connections and malfunctioning meters. Currently, unaccounted-for water can cost many cities up to one-half of their water supply and millions of dollars in revenue. For example, if a city pumps 1 million cubic liters of water a day, it sells only one half of that after the losses, and often does not cover its operating expenses.

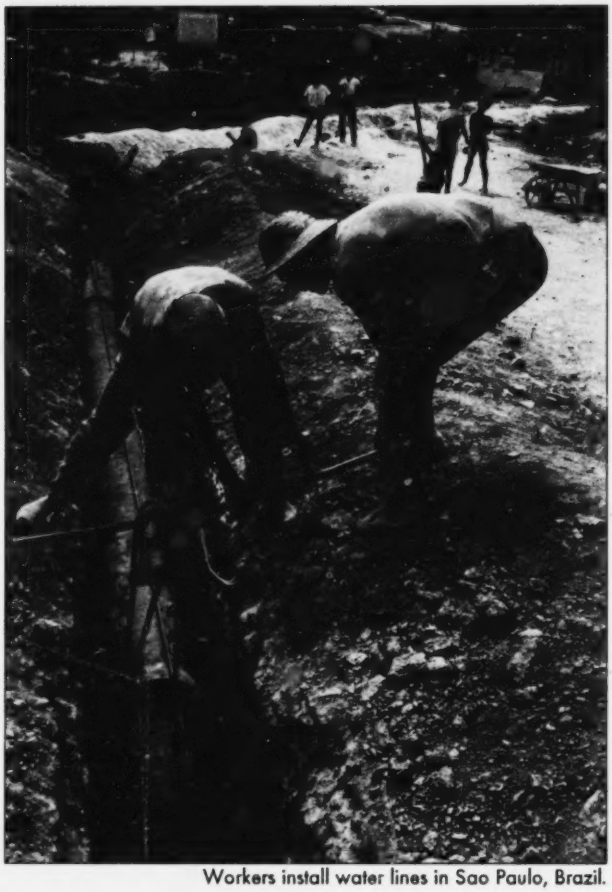
Third, many industries and commercial enterprises still waste water despite paying the full price. Many businesses and employees need to be educated about how to stop wasting water, reduce pollution and decrease environmental hazards.

WBN: Have some cities or countries successfully improved the way they manage water resources?

Mr. Arlosoroff: Yes. Some countries, like Singapore and the United States, have reduced water consumption in certain areas by 20 percent to 30 percent. Several Canadian cities are delaying large investments by implementing water demand management programs.

Mainly, they have achieved the savings by doing what is called "retrofitting," or adapting new technology that saves water. For households, that means using things like water-conserving showerheads or taps, especially for toilets. Experience in Israel showed that retrofitting of water appliances delayed large water projects by four to five years.

For industry, it has meant changing the industrial cycle. For example, many factories altered the practice they call the "once-through" cooling method which means they used water once for cooling machinery before discharging it. Now, many of them use cooling towers that allow them to recycle water. In China, factories are recycling the cooling water at a very high rate.



Workers install water lines in Sao Paulo, Brazil.

WBN: What has the World Bank done in the field of urban water management?

Mr. Arlosoroff: The Bank has been involved in a limited number of projects, but it needs to do much more.

The World Bank has to take a more aggressive and leading role in urban water demand management and encourage governments to focus more on conserving water and delaying expensive water projects. In September, we plan to undertake a series of workshops to discuss water demand management in a conference bringing together countries from both the developing and industrialized worlds in the Baltic Sea region. The conference will focus on the three Baltic countries, Poland, western Russia, Czechoslovakia, the Scandinavian countries and Germany.

After that, we plan to involve the countries lining the Danube River in Central Europe and the nations ringing the Black Sea, as well as other regions. □

WORLD BANK NEWS

Richard Kollodge, Editor
Christopher Bright, Production Assistant
Andrew Kircher, Reporter

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WORLD BANK NEWS

Volume XII, No. 22 June 3, 1993

Developing Countries Must Focus on Tackling AIDS

As the scourge of AIDS spreads around the globe, the developing world is bearing the brunt of the disease. Already, about four times as many Africans and Asians are infected with the AIDS-causing human immunodeficiency virus (HIV) as North Americans and Europeans. And AIDS is expected to spread even faster in developing countries than in industrialized countries in years to come.

To fight AIDS, developing countries need to act immediately, says Anthony Measham, Health Manager in the World Bank's Population, Health and Nutrition Department. "AIDS prevention and control is a development priority, not just a health problem," says Measham.

As the Ninth International Conference on AIDS prepares to meet in Berlin, Germany from June 7 to 11, Measham spoke to World Bank News *about HIV and development. Excerpts follow:*

WBN: As the Berlin conference approaches, what should developing countries be thinking and doing about AIDS?

See **AIDS,** *page 4*

Bedouins Protect Drylands Of Northwestern Egypt

Since the 17th Century, nomadic tribes known as Bedouins have roamed northwestern Egypt for pasture and water for their herds of sheep, goats and camels. But in the late 1950s, the Bedouins began to settle on the land, carving fields out of the dry ground to grow barley, figs and olives, and fodder for their livestock.

The settled farm life of the Matruh district's 40 tribes has put new pressure on the delicate drylands of the region, as fields were overgrazed and valuable topsoil was eroded. In a country where only 5 percent of the land supports crops, the steady degradation of the area's natural resource base has worried government officials who fear the region could be ruined for future generations of farmers if current practices continue.

To solve the problem, the Egyptian government is launching a $29.5 million project aimed at working directly with the Bedouins to protect the Matruh region's environment by conserving the area's land, water and vegetation. On May 27, the International Development Association (IDA) approved a credit of

See **EGYPT,** *page 2*

B. Souhlal

The Egyptian project will help the Bedouins to make fields more fertile for planting. Here, a Bedouin sits beneath a newly planted fig tree.

A shortage of locally trained professionals has hampered Africa's economic development. **4**

Uganda's development programs gain support totaling $825 million. International environmental group may be restructured. **6**

Lending roundup, page 2

Development agenda, page 3

LENDING

Project Will Raise Fig Production 100 Percent

EGYPT, *from page 1*

SDR 15.9 million ($22 million) in support of the plan.

"The main idea of the project is to work with the Bedouins and empower them to make rural development viable," says Bachir Souhlal, task manager of the IDA credit and natural resources management specialist in the World Bank's Middle East and North Africa Office.

Breaking the Cycle

The project aims to help one-third of the district's 190,000 people to break the cycle of natural resource degradation and improve their resource management approaches and practices. Efforts will focus on watershed management, research on dryland farming, livestock production, rangeland management and sustainable agricultural development. Training directed to the needs of Bedouin communities, agricultural extension services and finance for rural entrepreneurs will also be provided. The project will especially target the area's small Bedouin families and encourage women to take part in planning and implementation.

By conserving Matruh's resources, Egypt intends to make the land more productive, thereby boosting agricultural and animal production and earnings for the Bedouins. The formerly nomadic people make up 85 percent of the district's population and rank as some of the poorest residents of the country.

Souhlal says the project is expected to increase agricultural yields by about 50 percent for barley and by 90 percent to 100 percent for figs and olives.

Under the plan, the Bedouins will improve their use of scarce rainfall, which is the only water source for the people and their animals and crops. Reservoirs and underground cisterns will be built to hold water for domestic use, irrigation and livestock. Small earth and stone dikes will be laid along contours of the land to slow down and divert the runoff to farms. Small cemented dikes will be put in place to stop floods, thereby reducing erosion and creating new fertile farmlands. Also, the project will support efforts at planting trees and shrubs to act as windbreaks and to allow for the growth of more grasslands for use as fodder for livestock.

Small-scale farm industries like mint production, weaving, handicraft, and raising small animals will also be encouraged to raise incomes and to relieve the pressure on the fragile ecosystem. To make the most use of production, activities like fig-drying may be launched. Currently, Matruh's farmers sell their fresh figs to markets in Alexandria and Cairo but as production picks up, selling figs in dried form may become a new source of income. □

Matruh's 40 Tribes

Matruh differs from most of Egypt because of its unique ecological and cultural characteristics. The local population is made up of 40 tribal structures who run their local communities, make their own laws, and administer water and land rights. Recognizing that way of life and getting the go-ahead from all 40 groups is crucial in making sure the project is sound, says Bachir Souhlal.

"If we want rural development in the Matruh District to be sustainable, we must enlist the help and input of the local tribes," says Souhlal.

Under the project, community groups including men and women from each of the 40 tribes will directly take part in designing, implementing and monitoring the work. Each tribe will then craft a community action plan and decide which kinds of dikes, dams and cisterns would help them best preserve their land ecosystem from degradation.

Weekly Lending Roundup

Cote d'Ivoire — The government will improve the capacity of its human resource ministries to implement development programs by raising the level of ministry staff skills in key areas with help from a credit of SDR 4.7 million ($6.7 million) from the International Development Association. The project will pay for technical assistance and training for planning, programming, budgeting, and monitoring and evaluation of service delivery performance and the impact of policies and programs.

Ecuador — A $75 million World Bank loan will support the development of the country's private sector. The project aims to help accelerate private investment, improve financial sector performance and encourage allocative efficiency by supporting trade liberalization reforms.

Peru — A $11.8 million World Bank loan will help the government develop the Ministry of Energy and Mines and related entities. The project aims to ensure that the institutions contribute to the economic stabilization and structural reform in the energy and mining sectors, especially privatizations .

Development Agenda

Date	Event	Sponsor	Location	Telephone
JUNE				
4-6	Conference on Research Economics in the Middle East and North Africa	World Bank	Cairo	(202) 477-2318*
6-9	International Monetary Conference 1993	IMC	Stockholm	(202) 663-5013*
7-10	Privatization and Socioeconomic Policy in Central and Eastern Europe	Boston College Graduate School of Social Work	Krakow, Poland	(617) 552-4041*
7-11	Ninth International Conference on AIDS	International AIDS Society, World Health Org., et al.	Berlin	(41-22) 791-2111
8-9	Consultative Group for Russia	World Bank	Paris	(33-1) 40-69-3016
14-18	Water Supply Seminar for Latin America	World Bank	Alicante, Spain	(202) 473-8721*
14-25	World Conference on Human Rights	United Nations	Vienna	(212) 963-8070*
15-18	Energy Conference of Latin America and the Caribbean	Latin American Energy Org., ACIEM, Ministry of Mines and Energy of Colombia	Bogota	(593-2) 539-675
18	Sri Lanka Aid Group Meeting	World Bank	Paris	(33-1)40-69-3016
20-23	Health and the Environment: Meeting the Challenge for Human Development	National Council for International Health	Washington	(202) 833-5900*
21-22	Peru Consultative Group Meeting	World Bank	Paris	(33-1) 40-69-3016
23	Sierra Leone Donors' Meeting	World Bank	Paris	(33-1) 40-69-3016
24-25	Consultative Group for Ghana	World Bank	Paris	(33-1) 40-69-3016
24-25	Seventh London Conference on Privatization and Commercialization	Adam Smith Institute	Westminster, U.K.	(44-71) 222-4995
28-30	1993 Pan-Asian Forum: Telecommunications Reform, Privatization and Planning	Institute for International Research	Hong Kong	(02) 929-5366
29-30	Indonesia Consultative Group Meeting	World Bank	Paris	(33-1) 40-69-3016
JULY				
1-2	India Consortium Meeting	World Bank	Paris	(33-1) 40-69-3016
7	Publication of *World Development Report 1993: Investing in Health*	World Bank	Washington	(202) 473-1784*
7-9	Economic Summit	Group of Seven	Tokyo	(81-3) 3592-0156
AUGUST				
10-13	Population Commission	UNESCO	New York	(33-1) 45-68-1000

Editor's Note: *Development Agenda* is a feature that alerts journalists to key news events in the field of economic development. Journalists should contact sponsoring agencies for details about each event. Asterisk indicates telephone number is in the U.S.A. All other telephone numbers include country and city codes.

INTERVIEW

AIDS Cases in Asia May Soon Outpace Africa

AIDS, *from page 1*

Dr. Measham: Developing countries should focus on two things. First, there needs to be top-level commitment and clear statements from the political leadership in each developing country about the importance of stemming the spread of AIDS.

Second, countries should allocate substantial resources, which should be invested in what we know will slow the spread of AIDS, namely the treatment of sexually transmitted diseases (STDs) and education about AIDS and use of condoms.

Anthony Measham

Also, countries need to increase efforts to educate girls and assure more gender equity. Women are biologically more vulnerable to AIDS than men and they are made even more vulnerable by their lack of power in relations with men. And, women often lack the knowledge to protect themselves through safer sex practices.

WBN: Who is susceptible to AIDS?

Dr. Measham: The people who are most likely to contract AIDS are those who have multiple sexual partners and who have STDs. But some population groups are vulnerable because of other factors. For example, newborn children can contract the disease from a mother infected with the virus. About one-third of children born to infected mothers will themselves contract the disease.

WBN: How does AIDS affect developing countries?

Dr. Measham: In some countries, the AIDS epidemic can be devastating, mainly because it affects the most economically active people.

Infant and child mortality rises substantially, the overall mortality rate increases, and the population growth rate may be somewhat reduced. The effects on the economy and on social development can be profound.

WBN: What is the status of the AIDS pandemic?

Dr. Measham: The pandemic continues to spread rapidly, especially in Asia and some other areas where it was not heavily prevalent before. Clearly, the greatest concern now is the rapid spread in Asian countries.

The current estimates are that well before the year 2000, the number of new AIDS cases in Asia will exceed the number of new cases in Africa. The World Health Organization estimates that more than 13 million people already have been infected. For the year 2000, WHO estimates a cumulative total of 30 million to 40 million HIV infections, with 90 percent occurring in developing countries.

AIDS is spreading mainly in areas where the risk factors for rapid spread exist. Those areas usually have a high prevalence of STDs, many people with multiple sexual partners and a lack of strong AIDS-prevention measures.

Any epidemic, whether it's measles, AIDS or anything else, depends on its reproduction and infection rates. So, the number of cases you can prevent, especially early on, has a profound impact on how big the epidemic will be.

WBN: Are there any signs of progress in halting the spread of HIV?

Dr. Measham: Yes, more and more countries are demonstrating the commitment to fight AIDS. Also, more countries are investing the resources required to deal with the epidemic.

Thailand and India are making a major effort, the latter with World Bank support. Thailand's government has demonstrated an extraordinary commitment at the highest level, has organized an extensive prevention program and is investing a large amount of resources. It is concentrating its efforts on educating the population about AIDS, treating sexually transmitted diseases and making condoms widely available.

We now know a great deal more than we did even three years ago about what works and what doesn't work. For example, it's now clear that effective treat-

continued at top of next page

WHO photo/J.&P. Hubley

Health worker in Uganda displays AIDS-education posters that target young men and women.

More Countries Intensify Fight Against Disease

continued from previous page

ment of STDs will slow the spread of AIDS. In addition, there have been a few successful community education programs—for example in Zimbabwe—which could have a substantial impact if they are replicated widely.

In other words, we now know how to deal with this disease. The question is having the will and investing the resources to use that knowledge.

WBN: What is the World Bank doing about AIDS?

Dr. Measham: The Bank's efforts have expanded rapidly in the last two years. There are AIDS projects or components of projects in about 40 countries, and several countries now run major self-standing projects with Bank financing.

By the end of 1993, World Bank investments in AIDS prevention and control will be close to $500 million, which makes the Bank the largest financier of AIDS projects in developing countries. The Bank needs to do more, but the rapid increase in Bank-financed projects, research and policy dialogue with governments are steps in the right direction. □

Spread of HIV

Region	*Estimated Cumulative Adult HIV Infections*
Australasia	25,000+
North America	1 million+
Western Europe	500,000
Latin America and the Caribbean	1.5 million
Sub-Saharan Africa	8 million+
South and South-East Asia	1.5 million+
East Asia and Pacific	25,000+
Eastern Europe and Central Asia	50,000+
North Africa and Middle East	75,000+
Global Total	**13 million+**

Source: World Health Organization

MEETINGS AND EVENTS

'Capacity Building:' The Missing Link in African Development

The biggest development need in Africa today is capacity building, World Bank Vice President for Africa Edward Jaycox told the African American Institute on May 20. At the institute's 40th anniversary conference in Reston, Virginia, Jaycox said Africa badly needs the professionals and institutions which can design and implement effective policies. Excerpts of the speech follow:

There is no shortage of ideas about what lies at the root of Africa's development problems: the paucity of trained and skilled manpower and weak institutions.

The history of development demonstrates that to move from poverty to economic prosperity, countries need professionals who can identify problems, analyze them, formulate and decide on issues, and implement and manage decisions. They also need strong institutions that can allow their professionals to work efficiently and effectively at these tasks.

Human and institutional capacities are lacking in virtually all sectors and all countries in Sub-Saharan Africa. Why?

At independence, most countries had only a handful of professional people, and institutions were weak. Post-independence policies of state centralization, coupled with personalized systems of governance fed these weaknesses. Poor governance, political instability and the continued deterioration of African economies also forced many talented Africans to leave their countries.

We in the donor community must also take responsibility, and here I include the Bank. Let me first point out, however that, contrary to some thinking, structural adjustment is not one of the factors that undermine capacity. Some people falsely assume that adjustment programs have hurt investments in human resources. The fact is, prior to economic reforms, African economies were in free fall—there was no money to provide for books and chalk for schools, also medicine for the dispensaries. This criticism about structural adjustment is a case of confusing the malady with the remedy.

External development agencies failed, in my view, to insist on full local participation in identification and design of projects. Having failed to ensure local involvement, it is not surprising that local commitment and sense of ownership was weak. Donors also relied too heavily on foreign experts, even when qualified Africans were available. This did little to foster a receptive environment for the transfer of skills. In fact, it was often bitterly resented. Over-reliance on technical assistance also brought many difficulties.

Edward Jaycox

But problems in making technical assistance effective were not all the fault of donors. The approach on the part of African officials to technical assistance has often been ambivalent. Many governments perceive it at best as a free good (because it is grant-funded), and at worst as something imposed by donors, rather than an opportunity to be exploited.

In sum, the donors have done a disservice to Africa, and many African governments have participated blindly.

The question is, what can be done? What specific policies and actions should be pursued by African governments and donors to enhance human and institutional capacities? It would be presumptuous for me to prescribe what others should do. But I shall venture to indicate what actions we in the World Bank consider will produce tangible results on the ground.

First, we are encouraging a sense of responsibility and ownership for projects

See **JAYCOX,** *page 6*

Africa Needs To Increase Number Of Local Experts

JAYCOX, *from page 5*

and programs. We are asking governments to tell us what they want, to design projects and programs they feel are useful, and then come to us. In effect, we are creating demand. Second, we are actively working with a broad group of nationals to prepare country strategy and policy framework papers. We are insisting that the materials we use as the basis for our lending decisions be the product of Africans.

Third, we are focusing on hiring local African consultants for our projects wherever possible. In fact, this year we have instructed that no foreign expatriate consultants be used for Bank-funded projects unless task managers can prove to the Bank's loan committee that no qualified Africans are available to do the job. Fourth, we are emphasizing training and retraining in the reform of civil service.

Fifth, we are encouraging and supporting economic reform in order to promote an enabling environment for private sector development and the effective and efficient delivery of public services.

Finally, the Bank is making a long-term commitment to tackle the capacity building problem at its very heart; we are leading the effort with other donors to develop a critical mass of top-flight policy analysts and development managers.

Building African capacity is a cost-effective strategy in the long run.

Yet some donors do not yet appear to have grasped the fact that it is cheaper to build local skills for the future, than it is to boost their national consulting industries now. □

Aid Donors Pledge $825 Million for Uganda

Uganda will receive $825 million in financial support for development programs in 1993 and 1994. The support will be provided through loans, debt relief and grants from 12 aid-donor nations and 11 international organizations, including the World Bank.

The amount was pledged during a World Bank-sponsored meeting of the Consultative Group for Uganda in Paris May 27 and 28.

According to a statement issued by the group, Uganda has made "accelerated progress" in carrying out economic reforms even though revenues from coffee exports have remained low. Coffee is one of Uganda's main sources of foreign-exchange earnings.

Some of the economic reforms have already paid off, the group said. In April, the annual information rate had fallen—for the first time in years—to single digits. Investor confidence in the economy has risen, and the economic growth rate has reached about 7 percent a year.

But Uganda's economic recovery will depend heavily on new actions to stimulate the growth of the private sector, the group noted.

According to several delegates at the meeting, a potential obstacle to economic development in the country is corruption. The group urged "more forceful action" by the government to tackle this problem.

The group also noted that the government has been taking steps to reduce poverty. Steps include generating jobs, improving the delivery of social services, targeting assistance to the neediest individuals, and increasing educational opportunities, especially for girls. □

GEF Restructuring and Replenishing Makes Progress in Beijing

Representatives from 60 countries made substantial progress on restructuring the Global Environment Facility (GEF) at a meeting in Beijing from May 26-28.

Broad consensus emerged on a restructured GEF with universal membership governed by a Participants' Assembly. Governance and the institution's decision-making process were the main issues on the agenda. Governments agreed that consensus should be the prime instrument for taking decisions, with voting used only as a last resort.

Also, a separate meeting of donor countries on May 25 made progress in setting a target of raising between 2 billion to 3 billion SDR ($2.8 billion to $4.2 billion) for a three- to four-year period starting in July 1994. The GEF's three-year pilot phase, launched in 1990, ends at mid-year 1994. Replenishment and restructuring talks will continue in Washington in September and Paris in November before culminating in Geneva in December.

The GEF aims to assist developing countries to deal with global warming, the protection of biodiversity, and other global environmental problems. The fund was designated as the interim funding mechanism for the Conventions on Climate Change and Biological Diversity signed at the Earth Summit in Rio de Janeiro in June 1992. □

WORLD BANK NEWS

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WORLD BANK NEWS

Volume XII, No. 23 June 10, 1993

First World Bank Loan to Ukraine Supports Market-Oriented Reforms

Through a $29 million program, Ukraine aims to improve its economic performance by strengthening market institutions and by building government institutions capable of carrying out key economic reforms. On June 8, the World Bank approved a loan of $27 million in support of the project. The sum marks the first Bank loan to Ukraine since the country joined the institution in September 1992.

Ukraine, the "breadbasket" of the former Soviet Union (FSU), holds a wealth of economic promise. This Central European nation of 52 million people boasts Europe's second-largest land mass, and, after Russia, claims the largest population and largest economy among the countries of the FSU.

Realizing that potential has not been easy, though. During the past few years, Ukraine has been forced to grapple with an economy hemorrhaging from the collapse of the Soviet trading system. It has also suffered from a shortage of professionals and institutions capable of guiding the country out of 70 years of central planning to a market economy.

Theodore Ahlers

"Ukraine has the potential to join the group of the world's rich societies," says Theodore Ahlers, a senior economist in the World Bank's Europe and Central Asia Office. "It has a highly educated labor force, fertile agricultural land and significant mineral deposits. Yet, economic performance has deteriorated. The old system of central planning has largely collapsed but a genuine market system is just beginning to develop. Adoption and implementation of a strong reform program will be required to lay the basis for growth in the future."

Help For Privatization

Under the program, Ukraine will receive expert advisory services, training and equipment to help the reform effort in three areas where the government says

See UKRAINE, page 5

Aid Donors Consider Russia's Plans For Reforming Economy

A group representing 14 aid-donor nations and seven international organizations, including the World Bank, met for the first time to coordinate financial support for the Russian Federation's economic reforms.

The meeting, which took place in Paris June 8-9, was sponsored by the World Bank and was chaired by Wilfried Thalwitz, vice president of the Bank's Europe and Central Asia Region.

At the meeting, Russian Deputy Prime Minister Alexander Shokhin outlined his country's plan for carrying out reforms and focused on measures to curb monetary growth and fiscal expansion, liberalize trade and develop a market-oriented financial sector. Key actions to be taken, according to a statement issued by the group, include curtailing subsidies and "directed state credits" and launching reforms in pricing of energy and in setting interest rates. "These reforms would form the basis for a proposed drawing from the International Monetary

See RUSSIA, page 3

Twelve projects in Russia may soon be funded by the World Bank, according to an article by the Russian newspaper *Izvestia*. 2

Ukraine can tap into its economic potential if it carries out the right kinds of reforms, says a World Bank official. 5

Tajikistan joins Bank, page 3

Lending roundup, page 3

Development agenda, page 4

WORLD MEDIA WATCH

The following are excerpts from an article that appeared in the June 1 issue of the Russian newspaper, Izvestia.

World Bank Is Ready to Support Reforms In Russia and Not Just Talk About Them

by Alexander Shalnev

In an exclusive interview with *Izvestia*, World Bank President Lewis Preston mentioned a striking fact: two loans—estimated at a total of $160 million—which the Bank approved for Russia long ago have not been disbursed because Moscow has not yet approved the projects to be financed by the loans.

Bank officials say the projects are of great importance to Russia. One project is aimed at assisting privatization, the other at establishing what World Bank economists call a "safety net."

According to statistics from the World Bank, there are roughly 50 million Russians living below the poverty line. Most of these people—63 percent—are employed; they are not pensioners, retirees or disabled.

It has been almost a year since Russia joined the World Bank. What has been achieved during this time? Russia has received roughly $350 million from a so-called "rehabilitation loan," which totaled $600 million. The remaining $250 million has not yet been disbursed because of political confusion in Moscow.

Next month, a $610 million oil-sector loan will be approved if everything goes according to plan. The Bank's president says that he hopes the loan will lead to private investment in the oil sector—first by foreign groups and later by Russians. Just to keep petroleum production in Russia at the current level, $50 billion will be required through the year 2000 to modernize Russia's petroleum industry. Of this amount, $6 billion will be spent to restore half of the 25,000 wells which are out of commission but which could be used again with proper equipment and technology. The other $44 billion will be spent to develop new oil fields.

The Bank is already talking about a second potential oil-sector loan, for $1 billion, another rehabilitation loan, for $600 million, and an agriculture-sector adjustment loan for $500 million. And, the Bank is talking about another loan to assist Russia with land reform and with creating wholesale markets for agricultural goods.

In all, Preston said, there are 12 new projects in the making. These will be financed out of a proposed $4 billion package of Bank assistance for Russia.

Of course, the big question is whether the two projects for which the Bank has not yet disbursed funds will be implemented. As noted by Wilfried Thalwitz, the World Bank's vice president responsible for lending to the former Soviet Union and Eastern Europe, "we'll send the money if it's the sensible thing to do." But the Bank is not likely to see as "sensible" the political realities of today's Russia that are characterized by a "somersault" by parliament and by the absence of any consensus in the Russian power structures on some of the projects suggested by the Bank, Thalwitz said.

There are other factors which are not sensible, from the Bank's standpoint. A case in point: the proposed $500 million agriculture sector loan would remain primarily on paper if Russia does not drastically cut subsidies to agriculture. According to Bank estimates, 12 percent to 13 percent of the gross domestic product of Russia is spent on these subsidies—considering subsidies for other branches and subsidized credits, we are spending almost half of our gross domestic product this way.

"This kind of system is extraordinarily ineffective," says Preston. If the subsidies are maintained, our assistance programs won't be of great use to Russia, he added. The Bank is not trying to abolish domestic subsidies immediately, but it would like to have a clear feeling of the readiness of Russian authorities to take this road and more or less resolve the problem of subsidies in agriculture within two to three years, Preston said. "Your reformers are ready for that. But what about the Supreme Soviet?," he asked.

Bank agriculture experts working on Russia are convinced that since most subsidies go to sustain animal husbandry, significant reductions in livestock production will be inevitable if the subsidies are cut. But this phenomenon will be temporary: once Russians learn to be efficient and to get by with little but deliver more, agriculture will grow dramatically.

Bank experts are quietly complaining about the fact that there is no consensus about the necessity of cutting subsidies. And without this consensus, there is no way that large-scale assistance will be coming to Russia.

Another proposal by the Bank is to gradually—by the end of 1994 or early 1995—bring oil prices in Russia up to the world level. Currently, Russian prices are only 30 percent of the world level, said Bank experts.

As I understood from an interview with Preston—his first interview with the Russian press—and from discussions with his leading colleagues, two of the Bank's suggestions—raising petroleum prices and curtailing agricultural subsidies—are seen by the institution as the key criteria for its assessing how far the Bank should develop its relationship with Russia. But the Bank recognizes the colossal material and psychological consequences of

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IBRD and Russia

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these measures for the Russian people. Hence, the importance of establishing a safety net.

With regard to Russia, the Bank's president emphasizes, "we are displaying a certain generosity. For example, the rehabilitation loan is simply money which is freely accessible to you. But of course it could not go on forever. We are not a machine for printing money. We are supporting only those reform efforts which are apparent, not those which remain in the mind or on paper."

The president of the Bank expressed, by the way, a certain dissatisfaction with how relations with the Russian authorities are developing—not on a personal, but strictly a business level. "For us," he said, "it is still a problem to pinpoint decisionmakers in different fields, such as the oil industry or elsewhere."

Nor is the president satisfied with the fact that Russia seems to view the Bank as an aid agency. "This is not the case; our experience, our ability, our skills, are deeper, for example with regard to technical collaboration, or expert evaluation. We have contributed more to the economies of various countries than simply money," emphasized Preston.

And one more observation by the Bank's president: he thinks the Russian authorities should be more articulate in explaining to the Russian people the nature and scale of the problems which are inevitable in the reform process. Unless the nature of these problems is properly explained to the Russians, the perception will arise that the problems and difficulties are caused by the strict requirements of the Bank and other international financial institutions. "This perception is quite incorrect," Preston said categorically.

MEETINGS AND EVENTS

Assistance May Total $43 Billion

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Fund under its new Systemic Transformation Facility and for the [approval of] the World Bank's second rehabilitation loan [for Russia], the statement said.

Shokhin said that the proposed reforms would "provide the basis for realizing the special program of assistance of $43 billion [for Russia]," according to the statement.

Thalwitz welcomed Russia's intentions to speed up and "deepen" reforms but said the government still needed to address several issues, including reforming state-owned enterprises and strengthening the country's social safety net. "Actions in these areas would have to be supported by continued progress in improving the conditions for developing the oil and gas sectors and implementing a program to transform the agriculture sector," the group's statement said.

Russia has launched a radical program of economic reform to replace the remnants of the command economic structure with a market-oriented economy based on private ownership of property. □

Tajikistan Joins the World Bank

The Republic of Tajikistan joined the International Bank for Reconstruction and Development (IBRD) on June 4.

The country becomes the 175th member of the IBRD, which is the World Bank Group's main lending arm that provides loans at market rates to member countries to help them finance development projects.

To fulfill its financial obligations as a member of the IBRD, Tajikistan is making a payment of $5.32 million to the institution.

As of today, all 15 republics of the former Soviet Union have become members of the IBRD. Tajikistan has also become a member of the International Development Association. □

WEEKLY LENDING ROUNDUP

ARGENTINA A $340 million World Bank loan will help the government repair and maintain the country's vast road network. The loan will also help pay for technical assistance and training for staff of the National Highway Directorate.

COLOMBIA About 220 municipalities will receive improved primary health care through a program supported by a $50 million World Bank loan. The program aims to reorient the public health system by increasing the role of municipalities in delivering services.

REPUBLIC OF KOREA A $120 million World Bank loan will help the country make its energy sector run more efficiently and make petroleum supplies more reliable. Another loan, for $60 million, will support environmental research and will improve the quality of environmental education programs.

THE PHILIPPINES The government aims to improve the health and nutritional status of slum-dwellers in three urban areas with support from a credit of SDR 50.5 million ($70 million) from the International Development Association. The project will focus on bringing better services to 900,000 households in metropolitan Manila, Cebu and Cagayan.

Development Agenda

Date	Event	Sponsor	Location	Telephone
JUNE				
14-18	Water Supply Seminar for Latin America	World Bank	Alicante, Spain	(202) 473-8721*
14-25	World Conference on Human Rights	United Nations	Vienna	(212) 963-8070*
15-18	Energy Conference of Latin America and the Caribbean	Latin American Energy Org., ACIEM, Ministry of Mines and Energy of Colombia	Bogota	(593-2) 539-675
18	Sri Lanka Aid Group Meeting	World Bank	Paris	(33-1)40-69-3016
20-23	Health and the Environment: Meeting the Challenge for Human Development	National Council for International Health	Washington	(202) 833-5900*
21-22	Peru Consultative Group Meeting	World Bank	Paris	(33-1) 40-69-3016
23	Sierra Leone Donors' Meeting	World Bank	Paris	(33-1) 40-69-3016
24-25	Consultative Group for Ghana	World Bank	Paris	(33-1) 40-69-3016
24-25	Seventh London Conference on Privatization and Commercialization	Adam Smith Institute	Westminster, U.K.	(44-71) 222-4995
28-30	1993 Pan-Asian Forum: Telecommunications Reform, Privatization and Planning	Institute for International Research	Hong Kong	(02) 929-5366
29-30	Indonesia Consultative Group Meeting	World Bank	Paris	(33-1) 40-69-3016
JULY				
1-2	India Consortium Meeting	World Bank	Paris	(33-1) 40-69-3016
4-9	World Congress on Family and Children's Rights	Asia Foundation	Sydney, Australia	(679) 304-955
6	Publication of *World Development Report 1993: Investing in Health*	World Bank	Washington	(202) 473-1784*
7-9	Economic Summit	Group of Seven	Tokyo	(81-3) 3592-0156
11	World Population Day	United Nations	New York	(0222) 211310
SEPTEMBER				
6-11	International Symposium on Industry and Environment in the Developing World	UNESCO	Cairo, Egypt	(96-26) 694-351 ext. 603
8-11	International Conference on HIV In Children and Mothers	Pediatric AIDS Resource Center	Edinburgh, U.K.	(44-31) 668-4407
9-10	Conference on Portfolio Investment Flows to Developing Countries	World Bank	Washington	(202) 473-3914*
20-23	Towards Education for All	University of Brunei Darussalam	Brunei Darussalam	(673-2) 427001

Editor's Note: *Development Agenda* is a feature that alerts journalists to key news events in the field of economic development. Journalists should contact sponsoring agencies for details about each event. Asterisk indicates telephone number is in the U.S.A. All other telephone numbers include country and city codes.

LENDING

Reforms Include Privatization of Firms in Six Cities

UKRAINE, *from page 1*

it needs the most help: privatizing state-owned firms, building up a private banking system, and managing public finances.

"Ukraine has begun economic reform in some areas but they need to do more," says Ahlers. "Ukraine is a newly independent country and is very weak institutionally. So, it needs to build its capacity for reform."

Ukraine has already created the basic laws needed for the creation of private businesses and privatization of state-owned enterprises. As of early 1992, nearly 43,000 new private enterprises had been created by the private sector. The enterprises employ roughly 1 million people. But overall, progress has been slow in privatization and in the rise of the private sector, which Ukraine sees as a the main force behind future economic growth.

The project will encourage private-sector growth in cities and "oblasts," or regions. Kharkiv and five other cities will all receive help in auctioning small ventures and simplifying bureaucratic business regulations. Also, the government's efforts at breaking up monopolies will receive support, pilot privatization programs will be launched for five large enterprises and the government will carry out a public information campaign about privatization.

Basic banking services will receive assistance under the project. Help will focus on modernizing the payments system, reforming bank accounting systems, and strengthening commercial banks. Special assistance will be given to two formerly state-run Ukrainian banks to make them into modern, market-oriented institutions.

The project will also help the Ukrainian government improve its management of public finances, especially in the ministries of finance, statistics and the economy. Assistance will focus on putting a treasury system in place, modernizing the tax administration and statistical systems, and beefing up capacity for economic analysis.

Economy Slides

The collapse of the Soviet trade system hurt Ukraine, causing output to plummet for three consecutive years.

Once dependent on Soviet trade for 82 percent of its total trade, Ukraine saw its annual output fall by 3 percent in 1990, 11 percent in 1991 and an estimated 15 percent last year. The trade disruptions caused shortages of many goods, especially petroleum products.

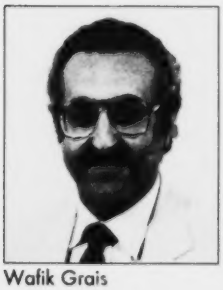
Lax financial policies have given rise to high inflation rates, reaching 1,500 percent for 1992. Government budget deficits are also rising as the state pays out subsidies to prop up ailing enterprises. Meanwhile, many enterprises are losing money, thereby denying the government badly needed revenues. □

INTERVIEW

Ukraine Needs Consensus on Reform

Like most of the other 14 countries of the former Soviet Union (FSU), Ukraine has embarked on the transition from a centrally planned economy to a market-based system.

But while Ukraine has come some way on economic reforms, it still needs to do a lot more, says Wafik Grais, the World Bank's operations chief for Ukraine and four other former Soviet republics.



Wafik Grais

Grais recently spoke with World Bank News *about Ukraine and its economic prospects. Excerpts follow:*

WBN: Where do economic reforms stand in Ukraine?

Mr. Grais: Ukraine has liberalized many prices and introduced several bills and laws that relate to privatization, demonopolization and property rights. It has also introduced its own currency, the *karbovanets*, which marks a big step toward clarifying who is responsible for Ukraine's monetary policy and macroeconomic stabilization program.

But Ukraine still lacks a blueprint for reform that is supported by a majority of the Ukrainian people and that could serve as the basis for moving ahead with a wide range of structural reforms.

WBN: Which steps should Ukraine take to develop its potential?

Mr. Grais: First, Ukrainians need to build a consensus on reforms. They need a clear political will to develop and implement a full-range economic reform program.

What that program will include could depend on the situation in Ukraine. But it should include developing the private sector, freeing markets, and creating an effective social protection policy. That means encouraging competition among enterprises, clearing up ownership rights and addressing the social costs of the transition to a free market.

Actively restructuring Ukraine's economy will involve the closing or shrinking of some enterprises, which then causes unemployment. Obviously, that is a social cost that needs prompt attention. But social protection does not just

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Unemployment Expected During Economic Transition

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mean passively dealing with the outcome of policy. It also means actively promoting the growth of private businesses and enterprises aimed at re-absorbing those who lost their jobs.

WBN: What does the government itself need to do to help reform?

Mr. Grais: In any of the transitions under way in the FSU or Eastern Europe, the governments need to change their role. In Ukraine, the government needs to move from being a manager and producer to being a facilitator. It needs to set up rules and guidelines, but it should avoid the temptation of directly managing production.

In other words, the government has to retrench and change its role. Instead of having a ministry of industry in charge of managing enterprises, you need to have a ministry in charge of facilitating the growth of private enterprises.

WBN: What will life be like for the average Ukrainian in a few years if reforms take hold? Will it improve or worsen?

Mr. Grais: Life has already become more difficult. If Ukraine moves ahead in a more determined way with reforms, life would get worse for a short period and then start picking up.

For example, Poland started its economic reforms in 1989 and its economic production is leveling out this year and may even see growth. The same time frame may apply to Ukraine. It may take three to four years before Ukrainian production bottoms out and turns back up. But that's just a generalization.

Still, the other option of no or slow reform is not a good choice. If Ukraine doesn't actively move forward with reforms, it may see a longer decline and a much longer time before the economy picks back up. The costs would be high.

WBN: Overall, what are Ukraine's economic prospects?

Mr. Grais: Ukraine is a large and rich country, with a lot of assets. Those resources just need to be used in a more efficient way to tap into the country's potential.

Ukraine has a very sophisticated and diverse industrial economy with all types of industry. It can produce very sophisticated high-tech products. It also has a rich agricultural base with a lot of wheat and livestock production.

Ukraine is the second-largest country in Europe after Russia. It needs to choose a framework for reform and embark with determination on the path to a market economy. □

World Development Report 1993 Focuses on Health-Care Reforms

A pre-publication press briefing on the *World Development Report 1993* will take place at 10:30 a.m. on Friday, June 25 in the World Bank's "J" building at 701 18th Street N.W. in Washington.

Dean Jamison, the World Bank staff member who led the team that prepared the report, will lead the briefing.

The report and comments made during the briefing are embargoed for release on July 6.

This year's report, *Investing in Health*, looks at progress in improving the health of millions of people in developing countries and shows what challenges countries will face in the years ahead. Many of the issues covered in the report are identical with health issues being addressed in the industrialized countries.

The report includes examples of how developing countries have successfully dealt with problems in providing public-health services.

For more information, contact Bill Brannigan at (202) 473-1784.

WORLD BANK NEWS

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